MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2022/2023

BFN3034 – BEHAVIORAL FINANCE

(All Sections/Groups)

2nd OCTOBER 2023
2.30 p.m. – 4.30 p.m.
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists **of TWO** (2) pages with **3 Questions** excluding the cover page.

2. Attempt all **THREE** questions. The distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet provided.

QUESTION 1 (35 marks)

(a) Identify and briefly explain each behavioral biases from the statement below.

(i) If you initially spot a T-shirt priced at RM1,200 and then come across a second one priced at RM100, you're likely to perceive the second shirt as inexpensive.

(5 marks)

(ii) An emotional bias leads individuals to assign a higher value to a possessed item, often in an irrational manner, than its market worth.

(5 marks)

(iii) Simple strategies or mental processes that humans use to quickly form judgments, make decisions and find solutions to complex problems.

(5 marks)

(iv) The erroneous belief that if a particular event occurs more frequently than normal during the past it is less likely to happen in the future (or vice versa).

(5 marks)

(v) The tendency to treat one's money differently based on factors such as its intended use or its source.

(5 marks)

(b) Compare and differentiate Prospect Theory with Utility Theory.

(10 marks)

(Total: 35 marks)

QUESTION 2 (35 marks)

(a) Discuss the difference between Efficient Market Hypothesis (EMH) and behavioral finance.

(15 marks)

(b) Compare illusion of superiority with conjunction fallacy.

(10 marks)

(c) Giving ONE example, discuss the differences between expected value theory and utility theory.

(10 marks)

(Total: 35 marks)

Continued...

QUESTION 3 (30 marks)

(a) Discuss the **TWO** agendas for the noise traders in Shleifer Model? **(10 marks)**

(b) Explain the **TWO** types of investors in Shleifer's Model.

(10 marks)

(c) Discuss the importance of Shleifer Model from the perspective of types of investors and assets in capturing the real-world aspect of the Royal Dutch–Shell pricing discrepancy.

(10 marks)

(Total: 30 marks)

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